

Corporate governance

The Board is committed to high standards of corporate governance and believes that it is in the interest of all its stakeholders to detail how the principles of corporate governance are applied within the Group.

In preparing its corporate governance statement, the Board has closely followed the recommendations set out in the Combined Code issued in June 2006. The Board has also taken into account the Group's structure, with 100% of the ordinary share capital of the Group being held by The Scott Trust Limited (STL). Two STL directors are also directors of the Group, and the chair of the STL also attends all Board meetings and is a member of the nominations committee. There is also a reciprocal arrangement whereby the chair of the Board is invited to attend all the STL meetings. All STL directors receive copies of monthly financial reports and Board approved minutes. This results in a closer relationship between management and shareholder than envisaged in the Combined Code.

The Board

The Guardian Media Group Board currently comprises a chair, five executive directors and six independent directors. The Board is headed by a chair whose role is distinct and separate from that of the chief executive. The division of responsibilities between the chair and the chief executive has been clearly established, set out in writing and agreed by the Board.

Amelia Fawcett was appointed chair on 22 April 2009. On appointment she met the Combined Code independence criteria. John Bartle is the senior independent director.

All the independent directors are free from any business or other relationship that could materially interfere with the exercise of their independent judgment. They each meet the independence criteria set out in the Combined Code. The chair on appointment met the independence criteria, but thereafter the test of independence is not appropriate by virtue of her position as chair.

Details of all the directors and the company secretary, set out on pages 13 and 14, indicate the directors' wide range of business and other relevant experience.

All directors are subject to election by the STL at the first annual general meeting following their appointment and to re-election thereafter at intervals of no more than three years.

A monthly financial report is provided to the directors. Board papers, which include regular and ad hoc reports, are circulated to the directors by the company secretary in advance of Board meetings to ensure Board members are supplied, in a timely manner, with the information they need. There is a written schedule of specific matters reserved for Board consideration which includes monitoring of Group strategy, reviewing trading performance and the approval of significant contracts, capital expenditure, acquisitions and disposals. Board meetings are minuted and circulated to all Board members by the company secretary.

Led by Amelia Fawcett, the independent directors, excluding any executive directors, meet formally during each year.

John Bartle will hold a meeting of independent directors, without the chair present, to review the chair's performance. The views of executive directors will be taken into account at the meeting.

On appointment to the Board, directors receive appropriate briefings on the Group and its activities and follow a tailored induction programme. They visit the Group's operations and meet local management.

All directors have access to the company secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. A procedure exists for directors to take independent professional advice, at the Group's expense, if necessary, in the furtherance of their duties.

A performance appraisal of Board members and a process to review the effectiveness of the Board and its committees have been introduced. The Board has moved from biennial to annual performance appraisals of all Board members and reviews of the effectiveness of the Board and its committees during 2009/10.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors. In accordance with the Company's Articles of Association, the directors and officers of the Company are all indemnified out of the assets of the Company, to the extent permitted by law, in respect of liabilities incurred as a result of their office. In addition to this general indemnity, the Company has also put in place a specific deed of indemnity setting out in greater detail the terms and conditions of the Company's indemnity. Neither the Company's indemnities nor directors' and officers' insurance provide cover in the event that a director or officer has acted fraudulently.

Executive committee

The Board delegates management of the Group businesses to the executive committee, which meets monthly.

Chaired by the chief executive, Carolyn McCall, the executive committee comprises the divisional chief executives of the Group's wholly owned divisions, the group chief financial officer, the group HR director, the group director of digital strategy and development and the company secretary. The executive committee is responsible to the Board for implementation of Group strategy, monitoring of business performance, and the approval of budgets, significant capital expenditure and contracts, and acquisitions and disposals for recommendation to the Board.

Corporate governance continued

The Scott Trust Limited (STL)

STL acquired all the ordinary share capital of Guardian Media Group in October 2008 from the Scott Trust which was subsequently wound up. All trustees of the Scott Trust became directors of STL. All shares in STL are held in equal shares by five of the STL directors.

STL chooses to ensure that only a minority of its members are executive directors of the Group. At present two STL directors, Carolyn McCall and Alan Rusbridger, fall into that category.

One place on the STL Board is reserved for a Guardian journalist, at present Larry Elliott, who is chosen by the other STL directors in consultation with the body of Guardian journalists.

The journalist-director serves for seven years. The normal tenure of other non-family STL directors, except those in executive positions, is limited to ten years, with the possibility of extension for another five years by unanimous vote of the STL Board.

Committees

The Board has a number of committees consisting of independent directors and with executive directors and senior executives in attendance. Composition of the committees and frequency of meetings is set out in the table below.

Director	Audit committee	Remuneration committee	Nominations committee	Investment committee
Amelia Fawcett	Member ¹	Member	Chair ¹	Chair ¹
Nick Backhouse	Chair	Member ²	Member	Member
John Bartle	Member ³	Chair ²	Member	
Neil Berkett (appointed 3 November 2009)	Member	Member ²	Member	
Judy Gibbons		Member ²	Member	
Simon Fox (appointed 1 May 2010)	Member		Member	
Brent Hoberman		Member	Member	Member
Frequency of meetings per financial year	4	3	2	As and when required

¹ Amelia Fawcett was appointed chair of GMG on 22 April 2009 and became chair of the remuneration, nominations and investment committees and a member of the audit committee. In keeping with the Combined Code, Amelia stepped down as chair of the remuneration committee and was replaced by John Bartle on 25 June 2009.

² As a result of restructuring assignments, Nick Backhouse and Judy Gibbons became members of the remuneration committee on 25 June 2009. Neil Berkett and Nick Backhouse resigned as members of the remuneration committee on 21 April 2010.

³ John Bartle stepped down from being a member of the audit committee on the appointment of Neil Berkett.

The number of meetings of the Board and committees held in the financial year ended 28 March 2010 with details of individual attendance by directors is set out in the table below.

Director	Board meetings	Audit committee meetings	Remuneration committee meetings	Nominations committee meetings
Amelia Fawcett	10	2	6	2
Carolyn McCall	11	4*	4*	2*
Tim Brooks	11			
Nick Castro (resigned 2 November 2009)	6	2*		
Mark Dodson (resigned 28 March 2010)	8			
Andrew Miller (appointed 2 November 2009)	5	4*	1*	
Alan Rusbridger	11			
Stuart Taylor	11			
Nick Backhouse	11	5	6	2
John Bartle	9	3	6	
Neil Berkett (appointed 3 November 2009)	4	2	2	1
Judy Gibbons	9		2	2
Brent Hoberman	11		6	2
Number of meetings held	11	5	6	2

* In attendance.

Details of the purpose of the committees are set out on page 29 and 30. All the committees have written terms of reference, which are subject to annual review and which are available on request from the company secretary and can be accessed on the Group website www.gmgplc.co.uk

Corporate governance continued

Audit committee

The audit committee, which consists of the chair and three independent directors, is chaired by Nick Backhouse. The chief executive, group chief financial officer, company secretary, controller of internal audit and senior representatives of the external auditors normally attend the committee's meetings. At least once a year the committee and/or the committee chair meets with the external auditors and separately with the controller of internal audit, without executive members of the Board present. The committee makes recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors and agrees their scope of work and fees prior to the commencement of the annual audit. The committee has a written policy on the engagement of the external auditor to supply non-audit services, which clearly sets out areas where the external auditor cannot provide non-audit services, for example accounting or managing internal audit work, as it could impact on their objectivity and independence.

The committee considers issues arising from the external audit and reviews the annual financial statements and written reports from the external auditors; it monitors internal financial control procedures and reviews the operation and output of the internal audit function. The committee reviews arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee has an agreed annual calendar of activities, which includes meeting in turn with the divisional chief executive and divisional finance director of each of the divisions wholly owned by the Group.

The committee's proceedings are minuted and circulated to all Board members by the company secretary. The audit committee chair formally reports on the outcome of audit committee meetings to the Board.

During the financial year ended 28 March 2010 the activities of the audit committee included:

- monitoring the integrity of the Group's financial statements and reviewing the significant and financial reporting judgments they contained
- review of the external audit strategy and subsequent report by the external auditors
- receipt and review of periodic reports from the controller of internal audit
- review of the committee's terms of reference
- meeting with the divisional chief executive and divisional finance director of the divisions, wholly owned by the Group, to discuss:
 - issues arising from recessionary trading conditions
 - working capital management
 - internal and external audit issues
 - timetable adherence
 - resources
 - assistance from the Group
- an effectiveness review of the committee.

Remuneration committee

The remuneration committee, which consists of the chair and three independent directors, is chaired by John Bartle. On matters other than those concerning themselves, the chief executive and group HR director normally attend the committee's meetings.

The committee is responsible to the Board for the Group's compensation framework and for determining the remuneration packages of the executive directors and members of the executive committee. It retains the right to scrutinise and, if necessary, veto proposals for individuals outside this group. It advises on executive remuneration policy issues. The committee has access to professional advice where necessary. PricewaterhouseCoopers LLP, who are also the Group auditors, and Towers Watson have provided remuneration advice to the committee.

The committee's proceedings are minuted by the group HR director and circulated to all independent directors. The remuneration committee chair verbally updates the Board on the outcome of remuneration committee meetings.

A review of the effectiveness of the committee was undertaken during the year.

Details of Board remuneration are set out on page 38.

Corporate governance continued

Nominations committee

Amelia Fawcett is chair of the committee. The committee consists of all the independent directors and Dame Liz Forgan, chair of the STL. Executive directors attend by invitation.

The committee deals with the selection of and makes recommendations to the Board on the appointment of Board members, where necessary using the benefit, advice and assistance of external search consultants. The committee ensures that plans are in place for an orderly succession for appointments to the Board and to senior Group management and monitors senior leadership development.

STL approval is required for the appointment of the chair of the Board, group chief executive and editor-in-chief of the Guardian.

External search consultants assisted in the appointment of Andrew Miller, Neil Berkett and Simon Fox as directors, and Amelia Fawcett as chair.

A job specification was prepared for the appointment of the chair, which included an assessment of the time commitment expected. The chair's other significant commitments were disclosed before the appointment was made.

The committee's proceedings are minuted by either the company secretary or the group HR director and the outcome of the meetings is formally reported to the Board by the chair of the nominations committee.

A review of the effectiveness of the committee was undertaken during the year.

Investment committee

An investment committee was created as a sub-committee of the Board to oversee the investment fund. The committee defines the financial objectives of the investment fund, sets asset class risk/reward parameters, reviews the fund allocation over a range of asset classes and makes recommendations to the Board on the level of funding and allocation. The committee appoints/dismisses advisers to the investment fund and appoints/dismisses managers in respect of each asset class selected. The committee monitors the performance of the investment fund and reports to the Board accordingly.

The committee is chaired by Amelia Fawcett, and consists of two independent directors, the chief executive, the group chief financial officer and the company secretary. The group head of corporate finance normally attends the committee's meetings together with the investment advisers, Cambridge Associates.

The committee's proceedings are minuted by the company secretary and circulated to all committee members. The investment committee chair provides the Board with a summary report of recent investment committee meetings.

Quarterly reporting on the investment fund performance by the investment fund advisers has been subsumed into GMG Board meetings.

Internal control

The Board is responsible for the Group's system of internal control. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control during the year.

The key features of the internal control system are:

- a clear organisation structure with defined levels of responsibility delegated to operational management
- maintenance of risk registers at both operational and Group level, which identify and evaluate risks and document control procedures and monitoring arrangements. Regular review and update of risk registers is embedded in operational reporting procedures
- certain key Group functions including taxation, treasury, insurance and day-to-day administration of the investment fund are handled centrally with regular reports to the Board through the group chief financial officer. The treasury function operates within Board-approved defined limits
- a structured process for approval of capital projects and significant contracts which includes appropriate authorisation levels. Post capital expenditure reviews are undertaken by internal audit with reports provided to the audit committee and Board
- all significant acquisitions or investments are subject to detailed internal appraisal involving both Group and operating personnel, and due diligence procedures, prior to being presented to the Board for approval
- post-acquisition reviews are undertaken
- comprehensive business planning procedures which include a rigorous annual budget process, culminating in the budget for the year ahead and plans for subsequent years being approved by the Board. Forecasts are updated quarterly and presented to the Board for review and comment
- monthly management accounts which report on trading performance by operation against budget and previous year, including relevant key performance indicators and latest year end forecasts, are provided to local and divisional management and the Board
- the internal audit function delivers independent review and assurance on the management of key business risks and that governance processes and systems of internal control operate effectively at divisional and Group-wide levels
- regular review of business operations throughout the Group by operating and executive management.

Corporate governance continued

Throughout the year under review and up to the date of approval of this report, the Board has operated procedures at all major trading subsidiaries (excluding joint ventures and associates) which meet the requirements of the Combined Code relating to internal control as set out in "Internal Control Guidance for Directors on the Combined Code", issued by the Institute of Chartered Accountants in England and Wales.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Compliance with code

Whilst as an unlisted plc there is no requirement for the Company to comply with the Combined Code, the directors believe that throughout the year and up to the date of the approval of the accounts the Company had complied with the provisions of the Combined Code, with the following exceptions:

- during the year, at least half of the Board, excluding the chair, were not, as defined by the Combined Code, independent. Following the resignation of Mark Dodson on 28 March 2010, and the appointment of Simon Fox as an independent director, on 1 May 2010, the balance of the Board changed and at least half of the Board are now independent. The close relationship between management and the Group's shareholder, STL, as described above, is noted
- not all current executive directors' contracts contain details of compensation commitments should there be an early termination of the contract. The remuneration committee intends to include appropriate compensation commitments clauses in the contracts of new executive directors.